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MASTER OF MILITARY STUDIES

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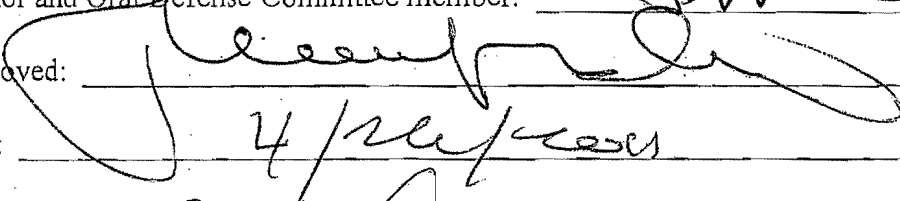
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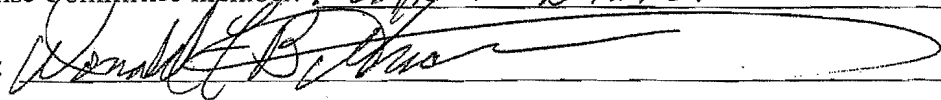
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EXECUTIVE SUMMARY

Title: Insecurity and Chinese – US Engagement

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Thesis: China's economic and military rise has caused alarm for established powers within the Pacific AO. However modernization and efforts to secure resources to perpetuate growth are natural, should not be viewed through a political lens of the Cold War and should be met with international guidance and partnership rather than confrontation or containment.

Discussion: Rapid economic development is driving China to become the world's top energy consumer. As its needs increase, China must secure new energy sources and secure its energy lines of communication. But as its national strategy develops, what form will China's energy strategy take? Will it affect the balance of power and peace within Asia? And ultimately are China's growth and energy consumption driving the region toward and inevitable conflict?

Recent history has evidenced the continued and rapid growth of China, leading to a nearly unprecedented level of economic prosperity and its explosion onto the world stage. Though financial gain has not trickled down or been equally distributed, it has enabled China to change its image and engage the global community as the world's future business hub. Economic prosperity has increased the influence of China throughout Asia and the world.

Success, however, has come at a cost. For China to continue along its current developmental trajectory, it must perpetuate economic growth and stabilize resource needs. To apply these controls (with both economic and social implications) China must ensure a steady flow of required resources. As China matures, it will be increasingly pressed to expand its global footprint to secure its strategic interests while attempting to become more self sustaining.

As a net oil importer, its movement by sea is considered national security vulnerability. According to PRC statements, the US represents the greatest potential threat to continued oil supplies. Therefore, security and defense of its energy lines of communication will become increasingly vital, and potentially contested. It is presumably due to the need to provide security to their sea lines of communication that China has increased spending and military modernization. This move has caused alarm for nations who perceive China's military build-up with concern, and as involving potential malicious intent.

Ultimately a very definable set of questions in relation to China's rise can be raised. Specifically, what does Chinese preeminence imply for greater Asia? Do regional disputes place the US in an awkward position between economic rivals? Are maritime incidents and territorial disputes pressing the region towards certain conflict? What effect does US-China trade dependency have upon potential conflict resolution? Does the US still have the political influence to resolve conflict, or are we on the brink of another cold war?

Conclusion: The contention of this paper is that though China's resource needs are rising, political, cultural and business ties between our nations can mitigate the need for confrontation. Though resources are limited, energy security is not a zero sum game with only one winner. And unless we allow political rhetoric and economic saber rattling to become self-fulfilling motives, hot or cold conflict can be avoided. However the ability to forestall confrontation requires greater dialogue and closer cooperation.

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Preface:

This paper is being written to address the case of China's growing anxiety concerning energy security, and to discuss the potential for the value of bilateral cooperation to work towards greater understanding between our two States. But an underpinning theme of this paper is the desire to address perceptions, and recognize China as a real peer competitor.

As most Americans have little exposure to China, apart from what is conveyed in popular culture, it is very easy to fall into the trap of viewing China as a less than modern state and the Chinese as unsophisticated people (much as the view of the Japanese prior to World War II). This perception could not be farther from the truth. China has moved beyond the condition of a peasant state in revolt. This is an important point to establish (in order to frame the discussion) if we are to shape realistic expectations on the subject.

China is (on the whole) a modern nation with diverse and growing urban populations (deliberately constructing communities of the 21st Century), as well as possessing vast rural centers in its interior. As such, Americans must begin to realize the growing potential of China's influence and international power if we are to imagine the potential for conflict or competition. To do otherwise would be foolish and set us up for failure. If we are to engage China, we must do so with our eyes and minds wide open.

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During the past quarter century, the world has witnessed in China a national economic and political rise which has been unprecedented in recent history. In only a few decades China has transformed itself from a country recovering from centuries of instability, wars and cultural decimation, to that of a major regional actor with growing international influence. But with success has come a perceived loss to self-sufficiency and national security, leading to a sense of insecurity and belief that China is slipping back into a state of vulnerability to outside control¹. The means by which they have sought to reverse this negative trend is causing great concern for neighboring Asian powers, including the US as a major regional stakeholder.

As a roadmap to this MMS paper, the case is made for required US-Chinese cooperation and the evolution of Chinese policy stemming from three lines of discourse: socio-economic, political and military. Specifically China's opening up over the past few decades (as part of its Open Door Policy) has led to unprecedented economic and social prosperity. Their success has been due to favorable conditions of geography, culture and population density, but also due to a collective vision and careful design.

Success has concurrently led China to greater realization of its own vulnerabilities; primarily, growing energy dependency stemming from the requirement to ensure further development and prosperity. Particular to their political vision has been the strategy of offshore exploration and long-term international investment and social presence designed to ensure political ties and sharing of resources. However, a sense of vulnerability coupled with the necessity to ensure the

¹ Downs defines Energy Security as access to adequate supply of energy resources (domestic and international) that protects the government's core interests at a cost which does not undermine those interests (either too high to promote economic gains or too low to cause artificial domestic shortages).

free-flow of resource has in part driven China to shift its geopolitical strategy and modernize its military, allowing for greater capacity of denial and limited protection².

Finally, China's rise as a super-power represents a paradigm shift in global influence, but also represents the opportunity for greater partnership and cooperation with the US. However, these conditions must be tempered as they coexist with the potential for regional conflict. Ultimately, the need for cooperation outweighs the drive towards protectionism. The solutions to this dilemma will be found in the same spirit of cooperation and political risk taking that brought China and the US forward as great states with more in common than is apparent and with a similar goal of social prosperity.

As China attempts to secure its global interests and enhance its position as the preeminent power in Asia, its rate of economic success and military modernization is becoming increasingly unsettling to contiguous powers across the region. Their national policy has been orchestrated to allow for increasing economic entanglement within Asia (and internationally) with the desired end and means to secure access to and assurance of resources required to buttress their continued economic prosperity. However, the methods and timing of this policy is distressing for US policy makers, and exacerbated by the fact that China's rise has coincided with a period in which the US has been greatly preoccupied by wars in the middle-east, thus unable to attend to regional matters as otherwise required. The result has been the nearly uncontested growth of Chinese power³.

This dilemma is giving rise to a growing chorus of voices within both Washington and the US military calling for containment of China before its rise becomes unmanageable. The counter

² Referenced from comments by Chinese Naval Academy aligning US Maritime Strategy (as continued US efforts to contain China through use of "Vanguard" naval forces) with needed growth and modernization of PLAN.

³ In its discussion on current challenges in Asia, CSIS cites the simultaneous wars in the middle east as long-term episodes that are having a negative effect on US ability to cope with potential military crisis in Asia.

argument calls instead for engagement, as containment is viewed as unwarranted and/or impossible. If growing militarization evolves into a strategic arm for China in an attempt to influence and project force, confrontation could follow if cooler heads do not prevail. At minimum, increased rhetoric and strategic moves (and response) in an attempt to respond to China could lead to a new cold war in Asia⁴.

The question of relationships (engagement) is crucial in any discussion on China, as its political and economic success seems to stand in direct opposition to US hegemony within the Pacific. Despite its remarkable free market success and relationship with the US, China remains ideologically and politically at odds with liberal democracy. As its political goals and security interests continue to expand, the US and regional powers will have to contend with China's push out from the continent in pursuit of resources, self-defense buffers and control of increasingly contested sea lines of communication⁵.

Thus questions surrounding the ascent of China hinge upon three axis of concern: energy demands, rapid military modernization and regional balance of power. First, how will China's resource strategy influence its national strategy? Second, how will China's infrastructure and military means develop to secure its off-shore interests and energy lines of communication? Third, how will China's efforts towards economic growth and stability affect the balance of power in the region? Of these concerns, the US is particularly interested in China's rapidly modernizing military and its increasing ability to deny access to potential US operations or intervention in regional disputes.

⁴ Whereas conflict is not an inherent quality of a nation's rise, danger does exist within the posturing and rhetoric of competitors that might drive the world to choosing sides in a perceived military dispute which may drive nations into confrontation.

⁵ According to Erickson, China views the revised US Maritime Strategy with caution, and the planned increased regional presence (through the 1000 ship navy initiative) as a potential threat to PRC hegemony.

This paper advances the position that whereas China's economic rise may be disconcerting to the West and does signal a shift in the current balance of power, the strategies and national agenda which it is pursuing are matters of course for a de facto super power. Similarly, military modernization is incidental to a nation's rise to power and the requirements to exercise protection and control of its resources and economic zones.

Therefore, if the intended use of its military is defensive rather than offensive, the risk of confrontation is low. In the case of China, potential threats are mitigated by Beijing's stated goal to continue its opening up as a global economy, regain status as a great power and evolve as a more liberal state. If China's rise is to be peaceful and it chooses to behave according to the rational actor model, there is much more to be gained, by China and the US, through social and economic cooperation and collaboration rather than confrontation.

As China moved from social to economic revolution, the ideas of Mao Zedong were destined to shape its struggle with the world during the Cold War. However, the conditions for the rise modern Chinese economic strategy were established under the 1979 fiscal reform of Deng Xiaoping⁶. His fiscal stabilization efforts following the colossal failure of the Cultural Revolution and Maoist social experiment (known as the Great Leap Forward) placed China on a course to become a major market economy. From Deng's time to present, Chinese economics would become increasingly less isolationist and be more correctly categorized as an evolving Socialist Market Economy. His reform, coupled with continued souring relationships with the

⁶ Even while Mao was still alive, Deng as Vice-Chairman attempted to set China on an economic course, which would allow it to recover from the failures of the Cultural Revolution. His attempts were constantly under political siege by Mao, until 1976 when both Mao and Zhou Enlai both died.

Soviet Union (resulting in a 1969 boarder war), led China to its Great Opening-up and re-emergence onto the world stage⁷.

It was Deng and a new generation of globally minded Communist leaders, beginning with Jeong Zemin, who realized that China's success lay within subtle economic competition rather than overt military conquest⁸. This less bellicose model of international engagement, through fiscal over physical confrontation, came at the cost of great political resistance from the more conservative wing of the Communist government. However, economic success has made a persuasive argument that competition as part of the global market is more beneficial, and has become the norm for a new Communist Party with more Socialist orientations.

One could argue that China's new economic imperatives have gained such momentum because they are in line with the traditional Chinese sense of doing business. It has been stated that it is only due to a twist of fate that China is currently a Communist country, as entrepreneurship and the capitalistic opportunism have traditionally been defining qualities of Chinese society. This perception would become more sharply realized as the effort of national growth and competition was focused with a keen sense of single-mindedness. Chinese leadership realized that in order to succeed globally, they must beat the capitalists at their own game.

Mao is famous for saying that "if you change the way people think... you can change China... if you change China you can change the world"⁹. It is by this same ethos that the Chinese approached their economic rise. The Chinese understood their national standing to be, relative to other world economies, a still developing nation. To the government and people, this

⁷ The foundation for China's re-emergence was begun by secret political meetings between Zhou Enlai and Kissinger during the early 1970's, during America's attempt to end the violence in Vietnam.

⁸ It was in his Third Plenary Speech (1978) that Deng proposed that China's focus should be away from a revolutionary mind-set to one of reconstruction and modernization.

⁹ The slogan is meant to extol the power of change expanding from the individual "grass roots" level.

meant that they must continue to work hard and struggle to become a preeminent player on the world stage. Specifically, as the international market is dominated by well established and more powerful nations, China's political and social strategy must be based upon working harder and smarter to succeed in an international market. It is through the means of collective sacrifice that they sought to raise their status in the world, and achieve the economic and strategic security that they seek.

However, after just more than a decade from formation of the new government ties soured between the PRC and its traditional ally (the Soviet Union). The resulting financial strain caused a great deal of human suffering¹⁰. More disturbing to government leadership was the potential for disruption to Russian oil imports and the realization that energy dependency translated into a real threat to security. As Zha notes, "by the mid-1970's, the Chinese economy was on the verge of collapse. China had energy self-sufficiency but not energy security. Improvements in China's international relations began an era of China's movement to lose its self-sufficiency in energy, but improving its energy security"¹¹.

Prosperity, however, created a problem for the Chinese government. As the economy flourished, there was a steady increase in the demand for energy (primarily oil) to fuel growth and modernization. As a result, China was transformed from an exporting nation to a net importer of oil. This new condition of energy dependency began to cause alarm in the halls of the PRC government.

¹⁰ Loss of life during the Great Chinese Famine, due to a combination of natural disasters and policy mismanagement, was exacerbated by payment of war debts to USSR in the form of food stuffs.

¹¹ Though oil independent, China's oil industry depended upon material assistance from the USSR. Real security could come only by technological self-sufficiency and an oil supply which surpassed demand.

Since the year of the PRC's inception in 1949, the population of China has more than doubled¹². These statistics are important in light of the official One Child Policy and population dip due to the nearly twenty million deaths caused by famine during the Great Leap Forward. The increase in population speaks largely to the success in decreased mortality rates as China transitioned from an agrarian to industrial based society. Now China is the most populous country in the world. This milestone has driven an increased need for fossil fuels to produce food stuffs, enable mobility and power infrastructure and industry.

Based on statistics from the DOE, China has grown over the past twenty-five years to become the second largest consumer of the world's oil supply (behind the US). As of 2008, they were the third largest net importer of oil based upon international energy statistics China's oil consumption accounts for 19% of its overall energy needs. The majority of their energy supply still comes from locally procured coal (71%), with remaining needs being sourced by hydroelectric (6%), natural gas (3%) and nuclear (1%). Renewable energies count for less than 0.2%¹³ (Table No. 1).

China still utilizes coal as its primary source of electrical power generation, with vast coal deposits located in the north and northwest. Though a reliable energy source, coal is problematic for two reasons. Large scale use of coal fire plants for electricity generation accounts for the vast amount of the country's air pollution. Also, the location of these reserves poses a serious logistical and economic problem (due to the high transportation costs), and the fact that moving coal ties up "about half of the countries rail capacity"¹⁴. The Chinese are attempting to resolve

¹² Population based on 2010 demographics.

¹³ Based upon 2010 DOE assessed energy figures.

¹⁴ Most of China's coal reserves are located in Northern China, near the Shanxi and Inner Mongolia Provinces.

this problem through use of greater hydro-electric and nuclear power plants. These facilities are located away from coal rich regions, and to the east near the population centers for primary use¹⁵.

However, as China's development and economic growth rate continues to increase, so too does the delta between the rate of consumption and production. This translates into a growing disparity between the amount of oil produced domestically and what must be purchased on the international markets. To government officials, this delta represents further dependency and potential threat to security. As China continues to shift from coal to oil, as part of its modernization plan, this issue will become even more critical¹⁶.

In an attempt to make up for this growing shortfall, China has recently invested nearly \$586 billion into an economic stimulus package focused, in part, on boosting its domestic oil productions. The money was spent primarily on material improvements to infrastructure and means for transportation. Now, approximately 85% of all Chinese oil production is located onshore. The hope is to create a steady increase in oil production capable of keeping up with demand.

To supplement this plan, the Chinese have announced plans to spend approximately \$40 billion in an effort to boost offshore oil production as part of an additional five year development plan. Currently, offshore production counts for 15% of China's overall oil supply. Offshore oil exploration is planned to offset the projected decline over time of fields located within the Chinese interior¹⁷. However, this approach is complicated by areas of contested waters within the overlapping Economic Exclusion Zones (EEZs) of the South China Sea.

¹⁵ China has 11 operational nuclear reactors, with 8 more under construction (as of 2010).

¹⁶ In 2002, coal production prices began to rival coal importation costs making domestic production less profitable. During the transition away from coal, China is continuing efforts to modernize and streamline small coal companies and raise production (while lowering costs) through consolidation and increase of government funding.

¹⁷ China Country Analysis Brief (2010 DOE)

In an effort to avoid this conflict, China is attempting additional supplements to their growing energy needs through the use of pipelines extending overland from Kazakhstan and Russia. The pipelines are intended to be integrated with China's domestic pipeline system, and act as a way to circumvent the need to move oil by sea through the straits. Problems exist, as the project has been hampered by the recent recession. Additionally, technical setbacks are limiting overall capacity to 50% of its planned rate; or slightly over 100, 000 barrels per day¹⁸ (Table No. 2).

Technical limitations may not be the only issue complicating the Chinese plan. According to Erickson and Collins, a problem with the plan for greater energy security through overland oil pipelines vice seaborne imports through a potentially contested Strait of Malacca, in an attempt to lies within a growing body of research suggesting overland routes are not an economically viable alternative. And, "barring discovery of an economically viable large-scale substitute for crude oil, their nation's dependence on seaborne imports will only increase". Erickson goes on to say that the PRC would be better off pursuing cooperative strategies to ensure free markets and the free-flow of energy imports. As this potential seems to contradict the current energy strategy, the response will likely be further unease due to the prospect of some potential energy blockade. And it will further influence the changing nature of Chinese Maritime Strategy¹⁹.

The DOE states that the most reliable and economically viable routes for both oil and liquefied natural gas (LNG) supplies imported into China are by sea transportation. This mode currently accounts for approximately 40% of oil importation. Whereas cost per barrel to transit 1000 km is 18 cents, the cost to move the same quantity of oil by pipeline over the same distance is 75 cents. Shipping oil by rail (over the same distance) can raise the cost to nearly \$1.50 per

¹⁸ Apart from technical issues supporting production rates, China is keenly aware to the potential for oil supplies to be interrupted due to political disputes and/ or due to sabotage.

¹⁹ Erickson and Collins point to the unavoidable necessity of maritime routes to energy flow into China that cannot be overcome by overland routes. The affect of this reality and inevitable vulnerability is causing greater anxiety for China as their oil dependency grows.

barrel. In 2007, China imported more than 300k barrels of oil by rail²⁰. So, it is evident that moving oil by maritime routes is much more cost effective. Moving oil over traditional shipping routes is likely to remain the norm (Table No. 3).

To achieve its goal of energy independence, a more recent feature of Chinese national strategy has been demonstrated through the policy of global investments as national strategy, by which China is forming closer and earlier economic partnerships with developing countries. To that end, the Chinese government has been making substantial business ventures in foreign markets. The nature of their investments has been affected primarily through a combination of loans and technological assistance to design and build infrastructure; and includes the purchasing of international debt to insure their own economy. Particular to these partnerships have been establishment of exchange programs for sharing intellectual talent, education abroad and increased job opportunities through eased immigration policies into and out of China²¹.

According to Ian Taylor, some of the foremost projects undertaken by China have included the building of much needed “universities, hospitals and numerous water projects”²². Superficially, cooperative engagement is designed to project a sense of altruism. However, social improvement projects are pure politics, and assists directly in their overall energy strategy. The genius behind this strategy is that it acts as a very effective means to increase international credibility and flex political (soft) power.

Apart from more traditional Asian markets, China has vested a great deal of time and money into its growing interests within Africa. According to the director of the Royal African Society, Richard Dowden, China is in Africa because of oil. More specifically, Chinese-African policy is

²⁰ China Country Analysis Brief (2010 DOE)

²¹ Eurasia Group Report: analysis of the Chinese business model as exemplified by oil industry practices in Sudan.

²² China's New Role in Africa (p. 19).

driven by the need for oil to feed its growing energy needs²³. Still ripe with violence and in a fractious political state, Africa offers a bounty of raw materials and resources for those willing to accept risk and do business on terms unconcerned with the internal politics of the partner nation.

For example, over the past few decades, Chinese off-shore investments have seen greater concentrations within the developing markets of Africa. This trend has been most notable in investments within Sudan. In 1992, the state owned China National Petroleum Corporation bought Chevron's Sudanese oil interests. Now China has the "controlling stakes in the biggest energy consortiums operating in Sudan". Their majority share gives them revenue (approximately 60 %) on approximately 490, 0000 barrels of crude oil per day. Much of this oil travels via a 1,500km pipeline, built by the Chinese government, which runs from south to north Sudan and on to the international markets²⁴.

Recently, Chinese ventures have included more extensive investment in Latin American industries as well. Over the past few decades, China has expanded its international influence through cooperation with the countries of Ecuador and Venezuela. As discussed by Evan Ellis, Joint Forces Quarterly, "Chinese corporations are becoming increasingly critical for the functioning of extractive industries that generate significant portions of the state's revenue"²⁵. This relationship seems to be following the same model as in Africa, and includes petroleum projects and investments in infrastructure (primarily rail ways) in order to transport "goods" more efficiently. It is a relationship which has proved beneficial for both countries; providing economic growth for one and access to resources for the other.

²³ Joint Forces Quarterly, vol 60, 1st Q, (p. 87).

²⁴ Part of China's two pronged oil acquisition plan comprised of exploration and production in small countries, accompanied by integrated packages of aid to garner influence.

²⁵ This comment speaks to the growing importance of Chinese investment to government and industry within developing countries, but does not imply an expectation of growth to popular economic prosperity.

According to The National Intelligence Council's report, Global Trends 2025, "a still preeminent US joined by fast developing powers, notably India and China, [will be positioned] atop a multi-polar system that will be subject to increased likelihood of conflict over scarce resources... one of them being energy"²⁶. This prediction, in combination with PRC fears of potential impediments to energy imports via primary SLOCs (notionally due to the US), give credence to rationale by many Chinese leaders that energy supplies can only be assured through naval modernization and expansion. According to Erickson, these maritime security concerns "are providing rationale for naval buildups and modernization efforts... [and focus on] development of blue-water naval capabilities"²⁷.

The strategy by which the PRC attempts to secure its interests can be defined (in part) by a history of erecting or obtaining physical boarders (buffers) between itself and the outside world. More recently, this strategy has been waged along ideological, physical and economic lines. However the attempt remains the same, a strategic buffer zone through a network of access denial. As their current economic trajectory continues, China must ensure economic stability and future growth.

So the primary question of importance (at the very least to the US Navy) is "to what extent will China seek to transform itself from a continental to a continental-maritime power"?

According to Erickson and Collins, "China's [energy] security concerns will help shape its military and policy priorities fundamentally, with significant implications for the US Navy in coming years"²⁸. This statement captures the primary theme for the discussion concerning the

²⁶ NIC 2008-003 Report on Trends in World Transformation

²⁷ Assessment is part of a collection of pol-mil analysis aligning modernization trends (and capabilities) with a desired end use. Most analysts agree that China remains more concerned with area denial rather than power projection.

²⁸ This consideration is reflected in recent CJCS comments calling for greater mil-to-mil cooperation with the PLAN, while ensuring capabilities and TTP to counter potential Chinese technological advantages.

intent behind China's Maritime and Energy Strategies, and predicts the potential trend for desired capabilities of the PLAN for the foreseeable future. A wide variety of Chinese officials and experts (within China) believe that, "the United States can sever China's seaborne energy supplies at will in a crisis [and may do so]". For them concerns over Chinese control of the Malacca Strait is very real, and are working to shape strategic plans for the next decades²⁹.

Modernization of China's military seems to be premised upon three critical factors; growing GDP, changing geopolitical agenda, and need to protect its energy lines of communication. China's Maritime Strategy has historically supported the goal of an uninterrupted oil supply by its primary sea routes. Now their strategy is increasingly taking on a form which will allow for greater access denial to foreign influence.

As economic security is the desired end state for Chinese policy, the means to that end can best be evidenced by the rapid development of its military forces. The rapid modernization of China's military has a two-fold relationship with its growing economy. It is primarily with the intent of dealing with the issues stemming from regional competition that China has focused its efforts in developing a more modern and capable military force. Improvements in military capabilities have been demonstrated by advances within all warfare domains (including air, maritime and space); however research and development in specific capability sets effectively illuminate the intent for the way China perceives future competition³⁰.

Until recently, the primary focus of Chinese military efforts has been directed at its army. Given the size of China and its contested land borders, this stands to reason. In the mid-1970's, China's geo-political strategy began to shift to address maritime concerns. Now, as an

²⁹ Nearly 80% of all Chinese energy imports are moved via the Malacca Strait.

³⁰ With few exceptions, the scope of China's weapons development has been primarily defensive in nature.

indicator to how important the question of energy security is to the PRC government, planning for naval modernization and sea lane protection has become a top priority³¹.

Motivation for Chinese naval construction can be traced to its cross strait conflict during the 1980's and 1995-96, with Taiwan. Though opposition with Taiwan itself is not a key element, due to short range combat capabilities provided by air coverage; US response to the crisis demonstrated the need to enhance its surface and sub-surface warfare capabilities. The need to update naval capabilities beyond those confined by limited range, direct targeting and that were operationally limited became readily apparent³².

Ultimately, the incidents would become seminal events in the shift in Chinese strategy. This same strategy of denial was expanded to the aerospace domain as well. The drive towards more advanced capabilities was seen as necessary to gain an advantage in the conflict charged environment. It is by the means of more advanced technologies and tactics that they hoped to keep the US out or delay access to intervention in any cross strait dispute³³.

To meet their need and counter the perceived threat from the US, the Chinese People's Liberation Army Navy (PLAN) was upgraded by introducing Jiangwei-class guided missile frigates and a mixture of Sovremenny, Luhai and Luhu class guided missile destroyers. The ships allow for greater air defense capabilities in a multi-data-link environment and an extended range to surface-to-surface, anti-ship-cruise-missile ranges. Additionally, more capable submarine forces (including a mixture of Kilo and Song class) have been added and act as a potent force multiplier. However, the operational range of these vessels is still seriously

³¹ This change is tied to China's concentration on Energy Security needs, but also reflects a self-analysis in capability as a major (modern) land power.

³² US response to the Taiwan crisis (the stationing of US Carrier Battle Groups) at the Northern and Southern entry points to the strait caught China by surprise, and gave clear indication of US willingness to defend Taiwan.

³³ To mitigate reliance upon port facilities, sustained and/or long range operations at sea must be supported by a reliable force of refueling assets.

impacted by the lack of Chinese oilers able to conduct refueling-at-sea (RAS), and speaks to the limited scope of naval influence China is able to project³⁴.

Effectively, the force is designed for short range/ short duration operations. This equation has been changed slightly by the development of anti-ship-cruise-missiles which can reach targets at great distances and maneuverable ballistic missiles able to target battle groups. However the definable ranges still speak to limited ability and intent to employ these weapons beyond a certain range from the Chinese mainland. Taking into consideration the strategy of access denial; it seems clear that China's intent is to keep its forces close to its own waters in defense of its regional interests. The implication is that PLAN forces will have the primary job of patrolling its territorial waters and defending the Sea-Lines-of-Communication (SLOCs)³⁵.

Traditionally far-flung economic interests and lines of communication have implied the need for a more open ocean (Blue Water) navy, vice China's littoral (Green Water) navy, but this potential is still in its infancy. Within the past decade, China has conducted a handful of trans-oceanic exercises and increase in the number of foreign ports visited. Also, some efforts within the navy have concentrated on addition of an aircraft carrier to its operational force. Though the utility and cost effectiveness of this investment has been highly contested (within the open source media) from both within the military and Chinese government³⁶.

Rather than investment in programs of limited operational use, Chinese maritime strategy has been largely driven by considerations closer to home. Specifically, the Chinese senses a growing pressure to enforce rights within its own contested economic exclusion zone. As the shared

³⁴ In "US-China Maritime Cooperation: Regional Implications and Prospects", Green surmises that the lack of open ocean refueling ships and concentration on littoral vessels implies regional defense operations, rather than an attempt at power projection.

³⁵ China's primary naval concern (aside from maintaining access to the Taiwan Strait) is access to and freedom of navigation in the Malacca Strait. By their assessment, only the US has any real capability to deny this waterway.

³⁶ Creation of a Blue Water Fleet (including an aircraft carrier) is currently part of a vigorous debate, though the motivation is generally viewed as stemming more from a desire to signal naval capabilities (to potential rivals) rather than real operational necessity.

waters between China, Korea and Japan are becoming more competitive every year. Resource competition has the potential to become even more heated based on what seem to be increasingly deteriorating political and social ties.

Eventually a search for equilibrium between policy and regional economics will force China to come to terms with its changing role in Asia. Only by doing so, will it be prepared for its new found leadership position and be able to adequately cope with the range of problems inherent to the position as a great nation. Conflict over the last few decades have been confined primarily to traditional political issues. But there are other threats on the horizon which may prove to be a sink-or-swim test for adaptation and political flexibility.

As an example, political tensions have driven economic actions by China in the contested waterways of the region. Recently, a growing series of incidents have occurred between China and Japan over fishing rights in contiguous EEZs and disputed island chains among mineral rich sea-beds (Figure No. 4). One such encounter resulted in cessation, by China, of importation of Rare Earth Elements to Japan. This embargo caused great concern for the Japanese, as Rare Earth Elements are critical to the manufacturing of numerous high tech component parts³⁷.

This incident rattled the technology dependent countries around the world. It served as clear evidence that the political reach of China is increasing, as is the potential for their soft power influence. It highlights that interruptions of trade, of similar materials, within the tech community have a pronounced economic effect; though not immediate, an embargo could have the same result as an oil embargo and threaten a nation's ability to compete technologically. This object lesson was not lost on the US, as many of the component parts for American weapons systems are manufactured using Rare Earth Elements.

³⁷ China currently mines 95% of the world's supply of Rare Earth Minerals, which are vital to the military as well as tech industry for the manufacturing of high-tech components.

In this case, China's actions signaled its intent is to flex its political muscle in continued pursuit of a goal of at least economic supremacy of Asia. To accomplish this task, they must continue to develop and evolve their economy to a level which surpasses all other regional actors, and controlling the markets. Their primary strategy to ensure non-interference of this end, and expand their influence, will be a continued policy of Chinese businesses first and access denial. China's growing military capability will play an important role in achieving this goal as an extension to economic policy.

As they work to engage and compete with the rest of the world economically, regional problems still must be addressed. In tandem with its economic prosperity, territorial and resource disputes exist in Asia which has the potential to threaten China's rise. Not the least of which is the issue with the legacy political entanglements; that of North Korea and Taiwan. Additionally, relationships with Japan have the potential to continue to deteriorate, as political and social ties strain due to competition for territory and fishing and mineral rights and control of sea lines of communication.

A recent series of incidents between Japan and China have sent relations between the powers plummeting. Among these, "curtailment of bilateral assistance, repeated trips by senior Japanese politicians to honor Japan's war dead, orchestration by Beijing of public demonstrations against Japan, and Japan's production of textbooks that gloss over burdensome historical facts [concerning China] causing greater military vigilance on both sides"³⁸. These incidents have so far been resolved through political channels, vice militarily. However, if tensions were to escalate into real conflict, perhaps over the strategically important Senkaku Islands, the resulting

³⁸ The Senkaku (Daioyutai) Islands are recognized as part of the Ryuku Island Chain (Southern tip of Okinawa), but possession has been disputed by China since Japan took position following WWI.

decision for the US of having to choose between “its closest ally and the region’s other big power” would become a very precarious position³⁹.

As to its relationship with North Korea, it seems evident that (at least for the near term) China will continue on a path of non-interference. Their engagement will continue based upon long term commitments to cultural and economic assistance as a means of influence. For an ascending world power, this kind of benign relationship seems to run counter to our western idea of responsible regional “governance”. However, a less intrusive approach is in keeping with the traditional Chinese model of recognition towards separate sovereign states (apart from episodes of national expansion and buffering). Importantly too, political engagement rather coercion allows for North Korea to remain in place as a counter balance to US hegemony⁴⁰. For the short term, it is beneficial for China to have close relationships with North Korea, but not too close.

These episodes represent challenges which have been primarily political and external in nature, so dealt with relatively easily by the national leadership. But as China transitions into its new role, it is likely that the system will be increasingly tested by internal and non-political forces. As development continues, China will be faced with greater social challenges as well. These issues can best be represented by the threat from minority groups, growth of a middle class and loss of popular support.

China’s position of power will cause it to increasingly become a target for religious extremists turning their attention toward a new powerful anti-theocratic state. Combating terrorism and religious movements may prove to be an overwhelming venture for the

³⁹ Ding (p.35) Increased military activity within disputed oil fields has led to speculation about near term Sino-Japanese conflict. Such a conflict would place the US in an awkward position between Japan as a military ally and China as a major trading partner.

⁴⁰ Though China is not happy with the negative international attention North Korea draws through its belligerent actions, and subsequent complaints received due to the overall lack of political condemnation, China seems satisfied to keep the North in place as a counter balance to US military power.

government, and a force against which Communism is not well designed to cope with. Of note, China continues to deal with the ongoing Uighur revolt near the province of Xinjian⁴¹. The root of the conflict lies within the separatist groups attempt to gain political and religious autonomy from China, but is also the result of regional culture differences in a vast country (especially along the border areas. China has dealt with the problem effectively (but harshly), at least in the short term. However the incident demonstrates the potential for future social decent, and difficulty for China's attempt to show progress toward greater social liberalism to the international community.

The threat of social destabilization and loss of control is ever present (and a source of worry) in non-democratic states. As in the middle-east, this case is especially true for more closed and tightly controlled societies like China. However, in its bid to become more open and amenable while appearing less authoritarian to the world, the need to reverse social equity and cultural openness may be sensed as too contrary to progress and counter to China's new found success. Therefore, the threat of terrorism may pose a threat which China is ill-equipped to deal with.

Additionally, as greater wealth is accrued in China, greater disparity is appearing between the upper and lower economic classes. The socio-economic divide is to be expected from a developing country, but one which poses a particular problem for social control. As China becomes more prosperous and capable of equitable reform, the Chinese people are likely to continue their demands for a stable (predictable) social system which supports the needs of a middle class.

A non-traditional national dilemma of this kind, therefore, becomes potentially more of a threat to regional stability. As China's legitimacy is premised upon its strength and the promise

⁴¹ The Uighurs (an ethnic Islamic minority) have been waging an insurgency against the PRC in an effort to establish an independent state (East Turkestan). They have been blamed for numerous bombings within China.

of prosperity (as the outcome for what the Chinese have sacrificed so much), civil turmoil and the assured economic downturn could be viewed by the PRC as a threat to its survival. Therefore, the government could divine a need to foster nationalist rhetoric to counter social instability and maintain a sense of legitimacy and power.

Chinese leadership has seemed more willing to accept this role of responsible governance (as stated in Prime Minister Wen's proposed political reform) through stated recognition that the "need for democracy and freedom in China is irresistible... and without the safeguards of political reform, the [benefits] of economic reforms will be lost"⁴², but the rate of change must be controlled and stay consistent with capability. The task of simultaneously maintaining control while achieving the end of public support is driving government behaviors which smack of political schizophrenia.

This brings us back to the question about just how to engage China; through engagement or containment. Should we use the carrot or the stick? In the most pragmatic sense, the question should center upon what is to be gained or lost. Perhaps the better question, though, why engage China in the first place?

Simply put, it is our best interest to seek an amicable relationship with China. As a growing power in Asia, China clearly cannot be ignored. They will develop regardless of US desires. To cite a recent article by Henry Kissinger, "China has been busy establishing itself as the next great power on the world scene. Beijing does not need US help to enhance its regional stature; it is doing this on its own"⁴³. The problem, according to Kissinger is not whether China will be a great power, but what kind of influence the US can exert to shape the character of its new role.

⁴² As part of this political reform, democracy typically refers to greater public inclusion in national decision making without universal suffrage.

⁴³ In this sense, attempts at Chinese containment are a futile effort.

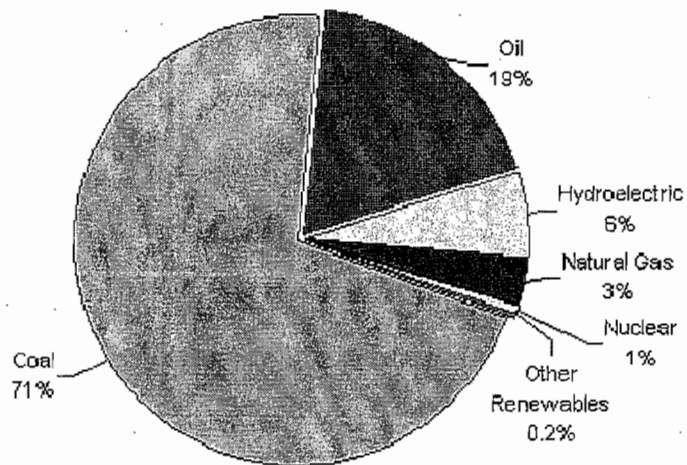
The US is still the preeminent nation on earth, so we are in a position to exert influence upon China. But the influence we need to use is through soft rather than hard politics (power). As Nye states, we are not in the midst of a post-American era, rather in the midst “a rise of the rest”⁴⁴. We are at a point when other nations are rising (China, India, Brazil, etc) and will be looking for guidance from us as a nation of experience. Through use of “smart foreign policy”, we can use example and persuasion to mold the character of these emerging states. The nature of engagement will be through collective cooperation, vice singular advantage. Ultimately, it will be the clarity of our message and the credibility of our actions that will win support.

Chinese leaders understand that politics (like the world) are a compromise between idealism and pragmatism. Looking to a classical expression about two tigers fighting over a scrap of meat, if they are no careful in becoming too preoccupied with quarreling, the meat will be stolen away by another animal. In other words, the Chinese realize that competition for a prize between two unyielding opponents can result in neither competitor winning, and cause the prize to be lost. Though energy security and regional competition is a concern, other problems of state cannot be overlooked. In the case of China and the US, this creates an opportunity.

Realizing that China and the US possess growing diplomatic and strong economic ties, as well as the common interest in regional stability, there is a great chance for shared cooperation. The critical point of this relationship is to look for the shared benefit. This is a pivotal time in world history when two great nations can chose to work in cooperation for a more secure peace through greater energy independence. To do this, we must stop looking at energy and resource competition as a zero sum game, and replace insecurity with common purpose.

⁴⁴ Nye contends that the US will retain power and influence, but in the information age, it is the group with the best narrative that will win the mind and will of the masses. So US politics must be tempered by credible intent.

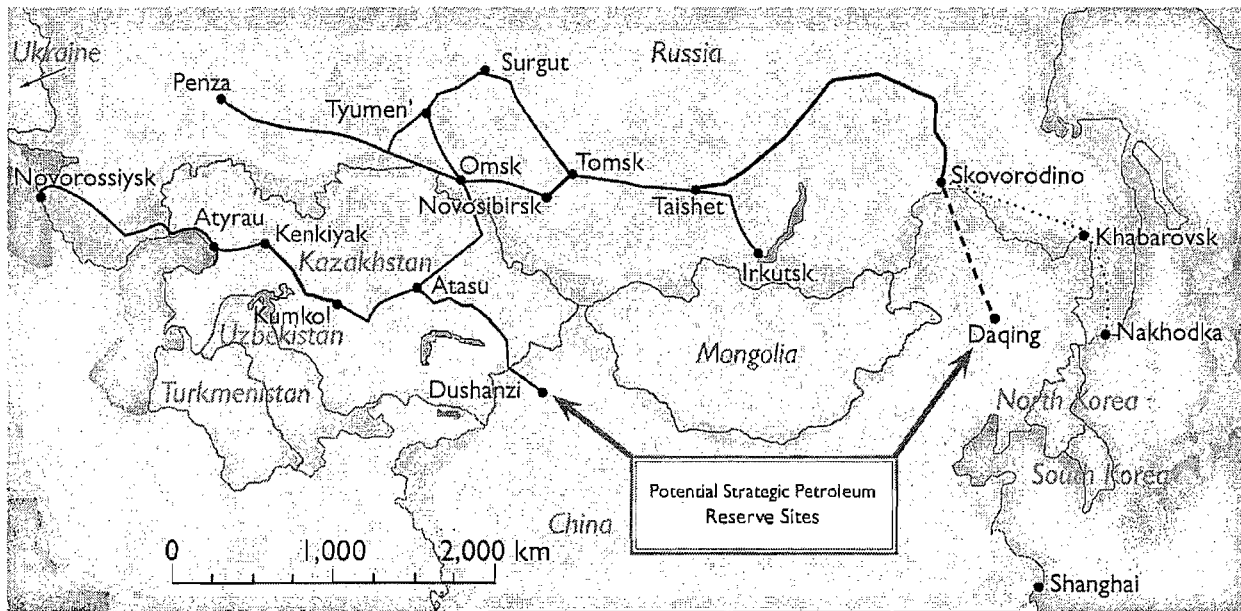
Total Energy Consumption in China, by Type (2008)



Source: EIA International Energy Statistics 2008

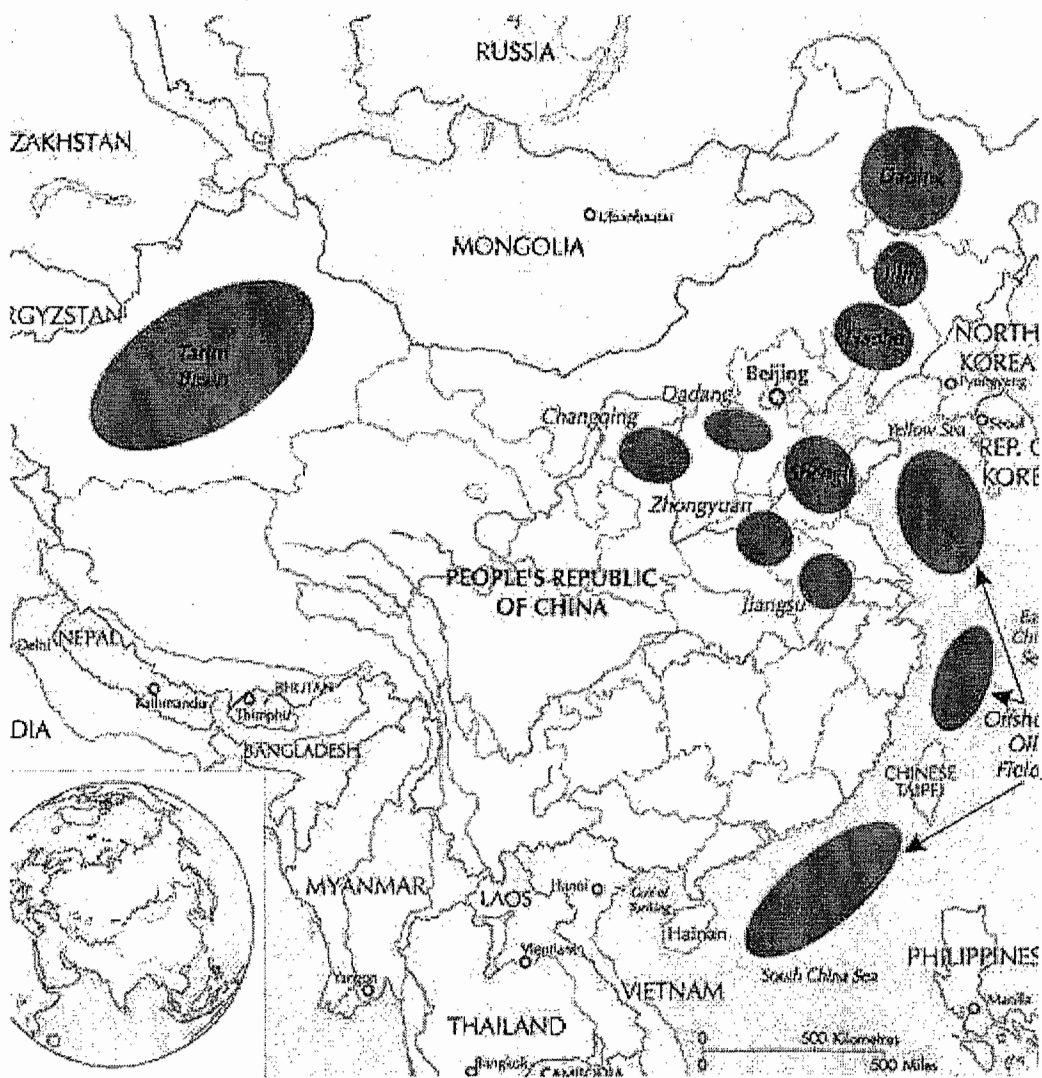
(Figure 1) China's Energy Consumption (2008)

www.eia.doe.gov



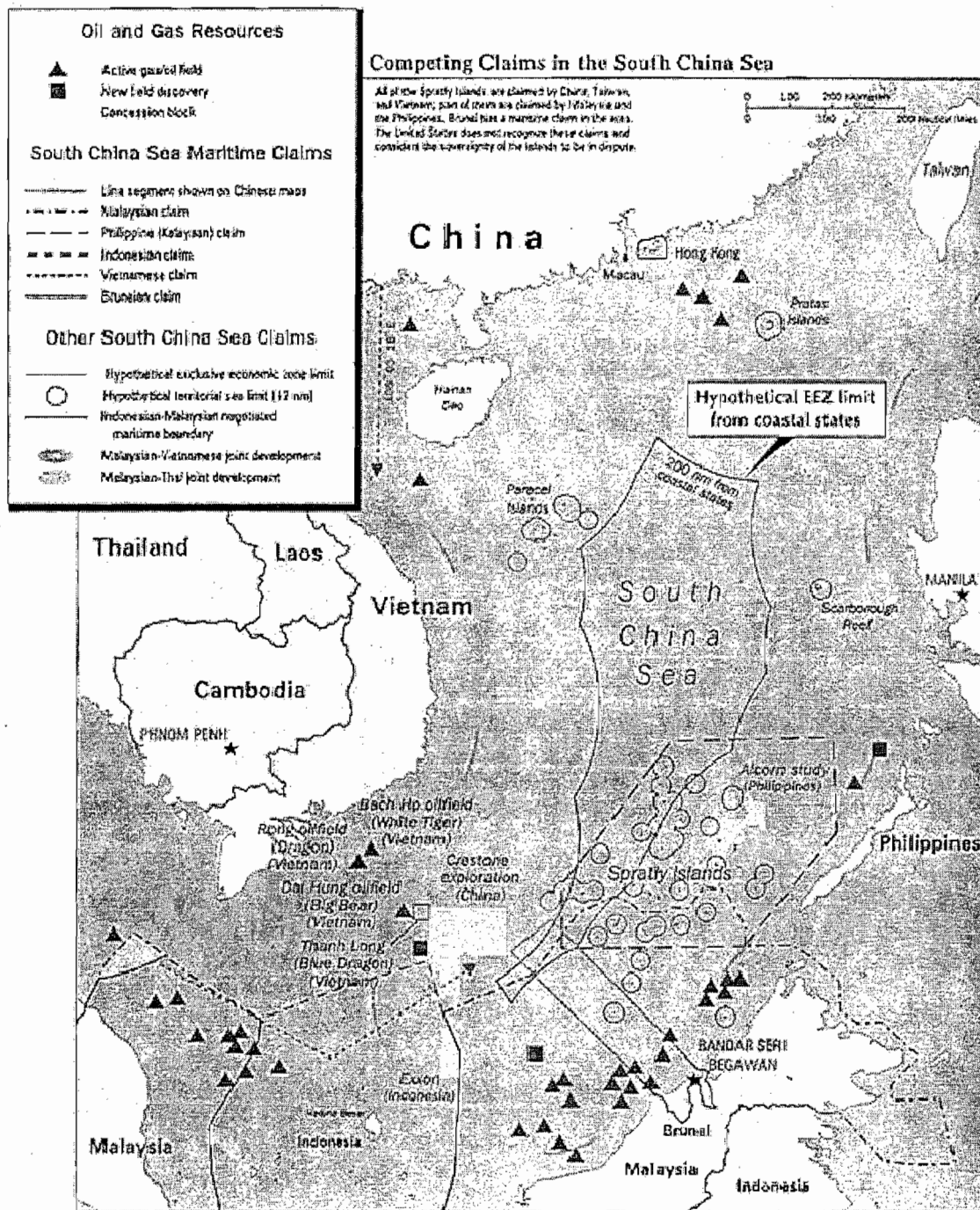
(Figure 2) RUSSIA-CHINA OIL PIPELINES: EXISTING, UNDER CONSTRUCTION, AND PLANNED

www.eia.doe.gov



(Figure 3) Indigenous sources of Chinese Oil (Onshore & Offshore supplies)

www.eia.doe.gov



(Figure 4) Competing Claims within the South China Sea

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